

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BAC2624 – MANAGEMENT ACCOUNTING II

(All sections / Groups)

12th October 2019
9.00 AM – 12.00 PM

(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages excluding cover page with 4 Questions only.
2. Attempt all **FOUR** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

The FGV Oil Bhd buys crude vegetable oil. Refining this oil results in four products at the splitoff point: A, B, C, and D. Product C is fully processed by the splitoff point. Products A, B, and D can individually be further refined into Super A, Super B, and Super D. In the most recent month (December), the output at the splitoff point was as follows:

- Product A, 275,000 gallons
- Product B, 100,000 gallons
- Product C, 75,000 gallons
- Product D, 50,000 gallons

The joint costs of purchasing and processing the crude vegetable oil were RM105,000. FGV had no beginning or ending inventories. Sales of product C in December were RM45,000. Products A, B, and D were further refined and then sold. Data related to December are as follows:

	Separable Processing Costs to Make Super Products (RM)	Revenues (RM)
Super A	240,000	375,000
Super B	60,000	150,000
Super D	45,000	75,000

FGV had the option of selling products A, B, and D at the splitoff point. This alternative would have yielded the following revenues for the December production:

- Product A, RM75,000
- Product B, RM62,500
- Product D, RM67,500

Required:

- a. Compute the gross-margin percentage for each product sold in December, using the following methods for allocating the RM105,000 joint costs:
 - i. Sales value at splitoff (8 marks)
 - ii. Net Realisable Value (NRV) (8 marks)
- b. Could FGV have increased its December operating income by making different decisions about the further processing of products A, B, or D? Show the effect on operating income of any changes you recommend. (4 marks)
- c. What are the two methods to account for byproducts. Which is the more appropriate method to use and why? (5 marks)

(TOTAL 25 MARKS)

Continued ...

QUESTION 2**Part A**

A company produces numerous types of money change machines. All machines are made in the same production department and many use exactly the same processes. Because customers have such different demands for the machine characteristics, the company uses a job-costing system. Unfortunately, some of the production managers have been upset for the last few months when their jobs were charged with the spoilage that occurred over an entire processing run of several types of machines. Some of the best managers have even threatened to quit unless the accounting system is changed.

Required:

What recommendations can you suggest to improve the accounting for spoilage?

(5 marks)

Part B

H Electrics Sdn. Bhd. assembles dishwashers. In February 2017, 60 circulation motors that cost RM110 each (from a new supplier who subsequently went bankrupt) were defective and had to be disposed of at zero net disposal value. H Electrics was able to rework all 60 dishwashers by substituting new circulation motors purchased from one of its existing suppliers. Each replacement motor cost RM125.

Required:

- What alternative approaches are there to account for the materials cost of reworked units? (6 marks)
- Should H Electrics use the RM110 circulation motor or the RM125 motor to calculate the cost of materials reworked? Explain. (2 marks)
- What other costs might H Electrics include in its analysis of the total costs of rework due to the circulation motors purchased from the (now) bankrupt supplier? (4 marks)

Part C

Robotoys manufactures and distributes small robotic toys. Because most of its orders are via telephone or fax, numerous orders have to be reworked. The average cost of the reworked orders is RM11.30: RM4.15 for labor, RM5.00 for more materials, and RM2.15 for overhead. This ratio of costs holds for the average original order. On a recent day, the shop reworked 83 orders out of 700. The original cost of the 83 orders totaled RM1,909. The average cost of all orders is RM24.34, including rework, with an average selling price of RM34.50.

Required:

- Prepare the necessary journal entry to record the rework for the day if the shop charges such activities to Robo Department Overhead Control. (4 marks)
- Prepare journal entries to record all relevant rework charges as well as to transfer the reworked items finished goods to Finished Goods Inventory. (4 marks)

(TOTAL 25 MARKS)

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QUESTION 3

The fixed costs of operating the maintenance facility of General Hospital are RM4,500,000 annually. Variable costs are incurred at the rate of RM30 per maintenance-hour. The facility averages 40,000 maintenance-hours a year. Budgeted and actual hours per user for 2018 are as follows:

	<u>Budgeted hours</u>	<u>Actual hours</u>
Building and grounds	10,000	12,000
Operating and emergency	8,000	8,000
Patient care	21,000	22,000
Administration	<u>1,000</u>	<u>1,200</u>
Total	<u>40,000</u>	<u>43,200</u>

Assume that budgeted maintenance-hours are used to calculate the allocation rates.

Required:

- If a single-rate cost-allocation method is used, what amount of maintenance cost will be budgeted for each department? (8 marks)
- If a single-rate cost-allocation method is used, what amount of maintenance cost will be allocated to each department based on actual usage? (8 marks)

The Hospital has been outsourcing data processing in the belief that such outsourcing would reduce costs and increase corporate profitability. In spite of this, there has been no meaningful increase in corporate profitability. Previously, the Hospital used a single-rate method to allocate data processing costs. A per unit cost for data processing was computed and compared to the price of the outside supplier. The price of the outside supplier was lower, so the outside bid was accepted.

Required:

- Formulate a possible reason why the Hospital's profitability has not shown improvement in terms of the cost allocation method used. (3 marks)
- Why do organizations use budgeted rates instead of actual rates to allocate the cost of support departments to each other and to user departments and divisions? (6 marks)

(TOTAL 25 MARKS)

Continued ...

QUESTION 4

G&A Consultants, are in need of a microcomputer network for their staff. They have received three proposals, with related facts as follows:

	Proposal A	Proposal B	Proposal C
Initial investment in equipment	RM90,000	RM90,000	RM90,000
Annual cash increase in operations:			
Year 1	80,000	45,000	90,000
Year 2	10,000	45,000	0
Year 3	45,000	45,000	0
Salvage value	0	0	0
Estimated life	3 years	3 years	1 year

The company uses straight-line depreciation for all capital assets.

Required:

- a. Compute the payback period, net present value, and accrual accounting rate of return with initial investment, for each proposal. Use a required rate of return of 14%.

	PV Factor @ 14%
Year 0	1.000
Year 1	0.877
Year 2	0.769
Year 3	0.675

(15 marks)

- b. Rank each proposal A, B, and C using each method separately. Which proposal is best? Discuss. (7 marks)
- c. How is inflation related to capital budgeting? Explain. (3 marks)

(TOTAL 25 MARKS)

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